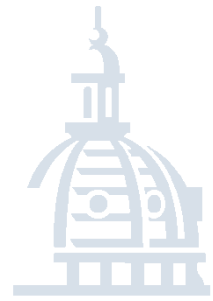


# Fiscal Note

*Fiscal Services Division*



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**SF 490** – Disabilities, Achieving a Better Life Experience Accounts (LSB1660SZ)  
Analyst: Jeff Robinson (Phone: 515-281-4614) ([jeff.robinson@legis.iowa.gov](mailto:jeff.robinson@legis.iowa.gov))  
Fiscal Note Version – New

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## **Description**

**Senate File 490** creates an Iowa ABLE (Achieving a Better Life Experience) Savings Plan Trust. The Trust will be administered by the State Treasurer. Contributions to the Trust on behalf of beneficiaries are deductible for State income tax purposes, up to a specified amount, and that amount is adjusted annually for inflation. Interest earnings on account balances are also exempt from State income tax. In addition, the accounts are not subject to State inheritance tax and the assets of the accounts are excluded from consideration under certain means-tested programs, such as Medicaid or Supplemental Security Income.

This Bill applies to account contributions made on or after July 1, 2015, and the income tax provisions are retroactive to tax year 2015. The State inheritance tax exemption applies to deaths occurring on or after July 1, 2015.

## **Background**

The U.S. Congress enacted ABLE account authorization legislation in December, 2014. The federal ABLE Act allows states to create programs to assist individuals in saving funds for the purpose of supporting persons with disabilities. The savings programs are similar, but not the same as, federal Section 529 college savings accounts. For federal tax purposes, contributions to the current Section 529 accounts and to the new ABLE accounts are not deducted from federally taxed income, but the earnings on the account balances are federally exempt as long as the money is used for qualified expenses.

The federal enabling legislation provides that the disability onset must have occurred before age 26. The federal legislation also specifies the level of disability necessary for participation in the ABLE program.

Iowa's Section 529 program (College Savings Iowa) includes an added benefit that allows taxpayers contributing to College Savings Iowa to deduct the contribution, up to an annual limit, from their Iowa income for income tax purposes. For tax year 2015, the limit is \$3,163 per account per contributing taxpayer, and the annual limit is indexed for inflation. This Bill establishes an ABLE account annual contribution limit for Iowa income tax deduction purposes equal to the College Savings Iowa limit in effect that tax year.

To benefit from the federal provision of the ABLE Act, the State where the qualified disabled person resides must create a State ABLE Program, or the State must enter into a memorandum of understanding with a program existing in another State. Contributions to an ABLE account may be made by any person. Unlike Section 529 accounts, a beneficiary cannot have multiple ABLE accounts.

Funds in an ABLE account may be used for any "qualified disability expense" including education, housing, transportation, employment training and support, assistive technology, personal support services, health care expenses, financial management and administrative services, and other expenses that will be further described in regulations to be developed in 2015 by the Treasury Department. Funds used for nonqualified expenses are subject to tax penalties.

### **Assumptions**

- For disabled persons in Iowa to benefit from the federal ABLE legislation, Iowa must enact its own legislation to either create an Iowa ABLE program, or authorize a contract with another state to accept disabled Iowans into that State's ABLE program.
- In anticipation of final federal rules governing ABLE accounts, Iowans will begin to contribute to ABLE accounts in calendar year 2015 (July 1, 2015, or after).
- The Iowa Department of Revenue estimates that there are currently 143,200 Iowans with a qualified disability level where the disability onset occurred prior to age 26. This number is assumed to remain the same for future years.
- Of the 143,000 potential Iowa beneficiary accounts, 71,600 (50.0%) are assumed to establish ABLE accounts within the next four years, with 14,300 established in 2015, 50,100 established by the end of 2016, and 64,400 by the end of 2017.
- While a beneficiary is allowed only one ABLE account, more than one person may contribute to that account and each contributor will be allowed up to the maximum annual deduction for State income tax purposes.
- The average Iowa income tax deduction per beneficiary will equal 140.0% of the annual ABLE contribution limit.
- The average marginal Iowa income tax rate is assumed to be 5.2%.
- The income tax impact is adjusted for the reduced federal income taxes owed by ABLE contributors (federal deductibility).
- Tax exemptions reduce State income tax liability and that in turn reduces the amount of revenue raised by the local option income surtax for schools. The surtax rate is assumed to be 3.5% of State income tax liability.
- The inheritance tax impact is assumed to be minimal.
- Based on experience with College Savings Iowa, the State Treasurer's Office indicates that the administrative costs to establish and monitor the program, particularly in early years, will be significant.

### **Fiscal Impact**

The creation of the Iowa ABLE Savings Plan Trust is projected to reduce State General Fund revenue and local option income surtax for schools revenue by the amounts in the following table.

<b>Revenue Reductions</b>		
In Millions		
	State General Fund	Local Option Surtax
FY 2016	\$ 3.3	\$ 0.1
FY 2017	11.9	0.4
FY 2018	15.7	0.5
FY 2019	17.9	0.6
FY 2020	18.4	0.6
FY 2021	18.9	0.7
FY 2022	19.3	0.7

At Iowa's top income tax rate of 8.98%, the benefit to the taxpayer for contributing the average amount used in this fiscal estimate (\$4,428 for tax year 2015) equals \$398. For taxpayers with

a lower marginal tax rate, the State tax benefit is lower. The fiscal estimate assumes that a significant number of accounts will be created to cash-flow current-year expenses through an account in order to benefit from the State tax reduction provided by the account. If the account fees, expense tracking, and other required paperwork prove to be too onerous for the level of tax benefit received, fewer accounts will be created and the fiscal impact will be lower.

The State Treasurer's Office indicates that, due to the account restrictions and limited qualified participant pool, the new program will take a significant amount of time to become self-sufficient. Therefore, an appropriation for program administration will be necessary for several years. The estimated appropriation level necessary is \$380,000 for FY 2016 and \$320,000 for FY 2017.

Implementation of this Bill is contingent on an appropriation for administration of the Iowa ABLE Savings Plan Trust. The Bill does not contain an appropriation.

### **Sources**

State Treasurer's Office  
Iowa Department of Revenue  
U.S. Census Bureau American Community Survey (disabled population)  
REMI, Inc. (Iowa population estimates)  
Joint Committee on Taxation (federal deductibility impact)  
Legislative Services Agency analysis

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/s/ Holly M. Lyons

April 21, 2015

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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